



Janet Napolitano, Governor
Anthony D. Rodgers, Director

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
Phone 602-417-4000
www.azahcccs.gov

Our first care is your health care

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

June 10, 2008

Stanley Aronovitch, Sc.D., CEO
Mercy Care Plan
4350 E. Cotton Center Blvd.
Building D
Phoenix, AZ 85040

Dear Dr. Aronovitch,

This letter is in response to Mercy Care Plan's (MCP) request for an enrollment cap as prescribed in Paragraph 9 Section I (Instruction to Offerors) of the Request for Proposal YH 09-0001 which allows AHCCCS to offer this arrangement at its sole discretion.

As part of evaluating these requests, AHCCCS identified four criteria that were used as part of the decision making process:

- Potential impact on AHCCCS members
- Potential impact on other AHCCCS or related lines of business
- Equitable treatment of both exiting plans
- Equity and potential impact on both new plans in Pima County.

Based on the above criteria, AHCCCS did not find any compelling reasons to justify a capped contract for all of your existing enrollees. AHCCCS has determined that it could be beneficial to both the State and the AHCCCS members if MCP continues to provide services to those existing members that are dually eligible for both Medicare and Medicaid, and any associated family members to maintain family continuity. All other members currently enrolled in the plan would be assigned into the Conversion Group also identified in Paragraph 9. AHCCCS has determined that such an arrangement best fits the above criteria for the reasons cited below.

Potential impact on AHCCCS members and Potential impact on other AHCCCS or related lines of business:

First it should be noted that AHCCCS has full confidence in the new and continuing health plans in Pima County and in the process for successful transitioning of all existing members. During the last acute care procurement cycle, AHCCCS transferred in excess of 125,000 individuals without one instance of a member falling out of care. AHCCCS is offering a capped contract for MCP's dual eligible members to further reduce any small risk that transition might present for these AHCCCS members who may have significant coordination of care issues. This option allows the members to continue their relationship with MCP's Special Needs Plan for their Medicare and Medicaid services.

Since the inception of the Medicare Modernization Act of 2003, AHCCCS has been a national leader in working with Managed Care Organizations to try and achieve dual eligible member alignment which allows these members to rely on a single plan or coordinated arrangement to offer both Medicare and Medicaid services. The option to continue to allow these members to stay in MCP supports this policy objective.

Equitable treatment of exiting plans:

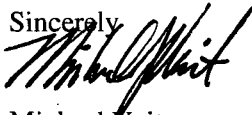
This offer is equitable because it is being made to both Mercy Care Plan and Pima Health Systems on the same basis.

Equity and potential impact on new plans in Pima County:

The Request for Proposal process established two new contractors in Pima County. Both University Physicians and Phoenix Health Plan have been awarded contracts with the ability to enroll new members starting 10-1-2008. Both University Physicians and Phoenix Health Plan submitted proposals that scored significantly higher than MCP and were deemed more advantageous to the State, and as such were awarded contracts. As is evident from the terms of the RFP, AHCCCS believes it is in the best interest of the state to assist new awardees and small contractors to obtain a specified level of membership through transferring exiting plan membership to new and small contractors and enhancing the auto-assignment algorithm. See *Attachment G* to the RFP. As proposed, a limited capped contract is more consistent with this goal than capping your plan at its current level of enrollment.

To implement the orderly transition of members, we require a prompt response. Please let us know before noon on Monday, June 16, 2008, if you are willing to accept a capped contract on these terms.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Veit", written over the word "Sincerely,".

Michael Veit
Procurement Officer